

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

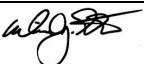
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Nankin Transit Commission

**Financial Report
with Supplemental Information
June 30, 2007**

Nankin Transit Commission

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Independent Auditor's Report

To the Board of Commissioners
Nankin Transit Commission

We have audited the accompanying basic financial statements of Nankin Transit Commission as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nankin Transit Commission as of June 30, 2007 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

December 10, 2007

Nankin Transit Commission

Management's Discussion and Analysis

Our discussion and analysis of Nankin Transit Commission's (the "Commission") financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Commission's financial statements.

Using this Financial Report

The General Fund is presented on the modified accrual basis of accounting, which is a short-term view that tells us how the resources were spent during the year, as well as how much is available for future spending. This information is then adjusted to the full accrual basis to present a longer-term view of the Commission as a whole. This longer-term view uses the full accrual basis of accounting so that it can measure the true cost of providing services during the current year and whether the resources have funded the full cost of providing Commission services.

The General Fund modified accrual-basis financial statements provide detail information about the Commission's current financial resources. This information is important as it demonstrates compliance with various state laws and shows the stewardship of the Commission's annual grant revenues and other revenue.

The Commission's full accrual-basis financial statements present information about the Commission's total economic resources, including long-term obligations. This information is important as it recognizes the long-term ramifications of decisions made by the Commission on an ongoing basis.

Condensed Financial Information (Full Accrual Basis)

The following tables show key financial information in a condensed format:

	2007	2006
Assets - Current	\$ 83,280	\$ 88,805
Liabilities		
Current liabilities	105,591	214,046
Long-term liabilities (Note 4)	145,000	145,000
Total liabilities	250,591	359,046
Net Assets (Deficit) - Unrestricted deficit	\$ (167,311)	\$ (270,241)

Nankin Transit Commission

Management's Discussion and Analysis

	2007	2006
Revenue		
SMART	\$ 654,230	\$ 645,121
Tickets, farebox, and other	99,690	121,697
Locally raised	178,000	178,000
Total revenue	931,920	944,818
Expenditures	828,990	980,305
Change in Net Assets	\$ 102,930	\$ (35,487)

The Commission's net asset deficit was reduced 38 percent from a year ago - decreasing from \$270,241 to \$167,311. This decrease is due to aggressive cost-cutting efforts. The Commission has decreased the number of drivers and the number of buses running, resulting in a decrease in wages as well as fuel costs. The Commission also renegotiated union contracts which resulted in lower healthcare costs.

Contacting the Commission's Management

This financial report is intended to provide our citizens and customers with a general overview of the Commission's activities and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Commission directly at 734-729-2720 or by mail at 37137 Marquette, Westland, MI 48185.

Nankin Transit Commission

Balance Sheet/Statement of Net Assets (Deficit) June 30, 2007

	General Fund	Adjustments (Note 2)	Statement of Net Assets (Deficit)
Assets			
Cash (Note 3)	\$ 72,864	\$ -	\$ 72,864
Accounts receivable:			
SMART	1,138	-	1,138
Third party	5,883	-	5,883
Prepaid expenses	3,395	-	3,395
Total assets	<u>\$ 83,280</u>	-	83,280
Liabilities			
Accounts payable	\$ 9,121	-	9,121
Accrued payroll and payroll taxes	5,721	-	5,721
Deferred revenue (Note 1)	34,000	-	34,000
Compensated absences - Expected to be paid within one year	-	56,749	56,749
Total current liabilities	48,842	56,749	105,591
Long-term liability - Advance from SMART (Note 4)	145,000	-	145,000
Total liabilities	193,842	56,749	250,591
Fund Deficit/Net Assets (Deficit) -			
Fund deficit - Unreserved	(110,562)	110,562	-
Total liabilities and fund deficit	<u>\$ 83,280</u>		
Net Assets (Deficit) - Unrestricted		<u>\$ (167,311)</u>	<u>\$ (167,311)</u>

Nankin Transit Commission

Statement of Revenue, Expenditures, and Changes in Fund Deficit/Statement of Activities Year Ended June 30, 2007

	General Fund	Adjustments (Note 2)	Statement of Activities
Revenue			
SMART (Note 4):			
General Fund subsidy	\$ 273,000	\$ -	\$ 273,000
Community credits	217,195	-	217,195
Municipal credits	164,035	-	164,035
Total SMART	654,230	-	654,230
Tickets, passes, farebox receipts, and other	99,690	-	99,690
Total revenue	753,920	-	753,920
Expenditures			
Administrative	182,086	4,379	186,465
Dispatch/Clerical	148,724	1,824	150,548
Vehicle operation	456,545	(7,293)	449,252
Fixed facilities	18,600	-	18,600
SMART-incurred (Note 4)	24,125	-	24,125
Total expenditures	830,080	(1,090)	828,990
Excess of Expenditures Over Revenue	(76,160)	1,090	(75,070)
Other Financing Sources - Locally raised	178,000	-	178,000
Excess of Revenue Over Expenditures and Other Financing Sources/Changes in Net Assets (Deficit)	101,840	1,090	102,930
Fund Deficit/Net Assets (Deficit) - July 1, 2006	(212,402)	(57,839)	(270,241)
Fund Deficit/Net Assets (Deficit) - June 30, 2007	<u>\$ (110,562)</u>	<u>\$ (56,749)</u>	<u>\$ (167,311)</u>

Nankin Transit Commission

Notes to Financial Statements June 30, 2007

Note I - Significant Accounting Policies

The accounting policies of Nankin Transit Commission (the "Commission") conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant accounting policies used by the Commission:

Reporting Entity

Under an interlocal public agency agreement between the Cities of Garden City, Inkster, Wayne, and Westland, the Commission functions as an intergovernmental organization for the purpose of providing for the operation, management, financing, and planning of local and specialized transit services in the participants' areas.

The Commission is governed by an eight-member board; each member municipality appoints two members. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Commission's basic financial statements include both government-wide (reporting the Commission as a whole) and fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets (deficit) includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. Buses used in the operations are provided by SMART and, therefore, are not recorded on the books of the Commission.

Nankin Transit Commission

Notes to Financial Statements June 30, 2007

Note I - Significant Accounting Policies (Continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to financial expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Commission.

Indirect costs were not allocated to the Commission during the year ended June 30, 2007.

The Commission reports the following major governmental fund:

The General Fund contains the records of the ordinary activities of the Commission. General Fund activities are financed by revenue from SMART, member communities, and individual system users.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Revenue - During the year ended June 30, 2007, the Commission received locally raised funds in the amount of \$34,000 from the City of Garden City, which relates to the fiscal year ending June 30, 2008. During the current fiscal year, the entire amount of \$34,000 is recorded as deferred revenue and will be recognized as revenue during the year ending June 30, 2008.

Nankin Transit Commission

Notes to Financial Statements June 30, 2007

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Total fund deficit and the net change in fund deficit of the Commission's governmental funds differ from net assets (deficit) and change in net assets (deficit) of the governmental activities reported in the statement of net assets (deficit) and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets (deficit) and statement of activities versus the economic focus of the statement of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund deficit. The following are reconciliations of fund deficit to net assets (deficit) and the net change in fund deficit to the net change in net assets (deficit):

Total Fund Deficit - Modified Accrual Basis	\$ (110,562)
Amounts reported in the statement of net assets (deficit) are different because compensated absences are included as a liability	<u>(56,749)</u>
Total Net Assets (Deficit) - Full Accrual Basis	<u>\$ (167,311)</u>
Net Change in Fund Deficit - Modified Accrual Basis	\$ 101,840
Amounts reported in the statement of activities are different because of a decrease in the accrual for compensated absences, which is only reflected in the full accrual statements	<u>1,090</u>
Change in Net Assets (Deficit) of Governmental Activities - Full Accrual Basis	<u>\$ 102,930</u>

Nankin Transit Commission

Notes to Financial Statements June 30, 2007

Note 3 - Cash

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Commission has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in instruments approved by the state statutory authority as listed above.

The Commission's cash is subject to the following risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. At year end, all of the Commission's bank deposits (checking and savings accounts) were insured and collateralized. The Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Nankin Transit Commission

Notes to Financial Statements June 30, 2007

Note 4 - SMART Contract

Under the terms of a purchase of service contract entered into between Nankin Transit Commission and SMART, SMART has agreed to provide, among other things, certain equipment, vehicles, and technical assistance necessary to provide public transportation services within a specified area. The contract attributable to the fiscal year ended June 30, 2007 provides for an annual subsidy of \$654,230, including direct payments by SMART of certain operating costs on behalf of the Commission. This contract has been extended to June 30, 2008.

The direct payments for 2006-2007 were as follows:

Administration	\$ 19,200
Vehicle maintenance	<u>4,925</u>
Total	<u>\$ 24,125</u>

Under the contract, the Commission has also received a working capital advance of \$145,000 from SMART. The total advance is repayable at the contract expiration date if not renewed at that time. The advance has been extended to June 30, 2008.

Note 5 - Long-term Debt

The Commission's long-term debt is comprised entirely of vested sick and vacation pay totaling \$56,749. The vested sick and vacation pay represents the estimated liability to be paid employees under the Commission's sick and vacation pay policy. Under the Commission's policy, employees earn sick and vacation time based on time of service with the Commission.

Nankin Transit Commission

Notes to Financial Statements June 30, 2007

Note 6 - Lease Agreement

The Commission leases office space under a renewable agreement. Rent expense for the year ended June 30, 2007 was \$15,000. The future minimum lease payments are as follows:

Years Ending June 30	Amount
2008	\$ 15,000
2009	<u>15,000</u>
Total	<u>\$ 30,000</u>

Note 7 - Budget Information

The annual budget is prepared by the director and adopted by the board of commissioners; subsequent amendments are approved by the board of commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Adopting a budget resulting in a fund deficit is also a violation of Michigan law. For the year ended June 30, 2007, the Commission experienced significant budget overruns in dispatch and administrative fringe benefits.

The General Fund had a fund deficit of \$110,562 at June 30, 2007. The Commission continues to explore both cost-cutting measures and alternative sources of funding to eliminate this deficit in the future. Additional possible funding sources include increased financial assistance from SMART and participation by new local units of government.

Required Supplemental Information

Nankin Transit Commission

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
SMART:				
General Fund subsidy	\$ 273,000	\$ 273,000	\$ 273,000	\$ -
Community credits	208,428	199,428	217,195	17,767
Municipal credits	<u>164,035</u>	<u>164,035</u>	<u>164,035</u>	<u>-</u>
Total SMART	645,463	636,463	654,230	17,767
Tickets, passes, farebox receipts, and other	<u>136,000</u>	<u>136,000</u>	<u>99,690</u>	<u>(36,310)</u>
Total revenue	781,463	772,463	753,920	(18,543)
Expenditures				
Administrative	174,251	175,851	182,086	(6,235)
Dispatch/Clerical	120,123	121,323	148,724	(27,401)
Vehicle operation	602,939	605,339	456,545	148,794
Fixed facilities	18,600	18,600	18,600	-
SMART-incurred	<u>43,550</u>	<u>43,550</u>	<u>24,125</u>	<u>19,425</u>
Total expenditures	<u>959,463</u>	<u>964,663</u>	<u>830,080</u>	<u>134,583</u>
Excess of Expenditures Over Revenue	(178,000)	(192,200)	(76,160)	116,040
Other Financing Sources - Locally raised	<u>178,000</u>	<u>178,000</u>	<u>178,000</u>	<u>-</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	-	(14,200)	101,840	116,040
Fund Deficit - July 1, 2006	<u>(212,402)</u>	<u>(212,402)</u>	<u>(212,402)</u>	<u>-</u>
Fund Deficit - June 30, 2007	<u>\$ (212,402)</u>	<u>\$ (226,602)</u>	<u>\$ (110,562)</u>	<u>\$ 116,040</u>

Nankin Transit Commission

Required Supplemental Information Budgetary Comparison Schedule - Expenditures - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Administrative				
Salaries	\$ 113,069	\$ 113,069	\$ 112,475	\$ 594
Fringe benefits	37,882	37,882	47,249	(9,367)
Equipment rental	500	300	-	300
Legal fees	3,000	3,000	2,400	600
Accounting/Payroll	10,000	10,500	10,450	50
Supplies	1,800	1,800	1,707	93
Travel	2,000	2,000	1,848	152
Unfunded capital	1,500	1,700	1,558	142
Telephone	2,000	2,200	1,200	1,000
Fees for seminars and meetings	1,500	2,100	1,992	108
Miscellaneous	1,000	1,300	1,207	93
Total administrative	174,251	175,851	182,086	(6,235)
Dispatch/Clerical				
Salaries and wages	90,400	90,400	87,952	2,448
Fringe benefits	25,872	25,872	56,384	(30,512)
Telephone	2,400	2,600	2,731	(131)
Radio maintenance	51	51	-	51
Office supplies	1,400	2,400	1,657	743
Total dispatch/clerical	120,123	121,323	148,724	(27,401)
Vehicle Operation				
Salaries and wages	337,800	337,800	203,437	134,363
Fringe benefits	155,989	155,989	153,443	2,546
Uniform allowance	1,100	1,100	725	375
Gasoline	51,500	53,900	43,380	10,520
Vehicle supplies	300	300	-	300
Insurance	56,250	56,250	55,560	690
Total vehicle operation	602,939	605,339	456,545	148,794
Fixed Facilities				
Rent	15,000	15,000	15,000	-
Building maintenance	3,600	3,600	3,600	-
Total fixed facilities	18,600	18,600	18,600	-
SMART-incurred				
Administration	19,200	19,200	19,200	-
Vehicle maintenance	24,350	24,350	4,925	19,425
Total SMART-incurred	43,550	43,550	24,125	19,425
Total General Fund expenditures	<u>\$ 959,463</u>	<u>\$ 964,663</u>	<u>\$ 830,080</u>	<u>\$ 134,583</u>



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December 10, 2007

To the Board of Commissioners
Nankin Transit Commission
37137 Marquette
Westland, Michigan 48185

Dear Commissioners:

We have recently completed our audit of the financial statements of Nankin Transit Commission for the year ended June 30, 2007. We would like to take this opportunity to thank the staff and management for their assistance during our audit. In addition to our report, we offer the following comments and recommendations.

New Audit Standards

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful in its oversight of the Commission's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor in order to allow it to evaluate their significance and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of Nankin Transit Commission as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

- The general ledger is not being reconciled regularly with the subsidiary journals, ledgers, and registers. At year end, the auditors made several adjustments to the general ledger and subledgers to make them agree. Also, journal entries posted to the general ledger are not reviewed by a second party. In addition, journal entries were suggested by the auditors for matters unrelated to the subledgers in order for the financial statements to be in accordance with generally accepted accounting principles (GAAP).

Please note that the accounting assistance provided during the course of the audit is consistent with the services provided in previous years. Under the previous audit standards, this was not a matter that was required to be communicated.

In addition to the above, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material weaknesses.

Segregation of Duties

Due to the size of the Commission, we realize that achieving the optimal level of segregation of duties is difficult. A strong system of internal controls separates the custody and recordkeeping functions surrounding cash receipts and disbursements. In the Commission's system design, the same person who prepares the checks can also post journal entries and prepare the bank reconciliation. This is a rather weak internal control system; however, when a limited number of people is available in which to assign these functions, maintaining the internal controls becomes more challenging.

To strengthen your controls, we suggest that you limit signature authority or have another individual prepare the bank reconciliations. In addition, we would like to take this opportunity to remind you of the importance of maintaining offsetting controls in your system. We have highlighted some of the procedures that we feel are an important element of your internal control system:

- Board review and authorization of expenditures is a key control in your cash disbursement system.

- Two signatures are currently required on checks written by the Commission. Although the bookkeeper is an authorized check signer, this provides an opportunity for someone outside the accounting function to review disbursements before they are made.
- Fare box receipts are turned in to an individual outside the accounting function. The receipts are signed by the driver and the employee receiving the funds. The receipts are then turned over to the accounting department for deposit and recordkeeping. These procedures, in conjunction with the drivers' passenger logs, provide a cross-check to verify the receipts.

As an added control, we recommend that a person independent of the recordkeeping function prepare the bank reconciliations.

Fund Deficits

As of June 30, 2007, the Commission's General Fund has an accumulated deficit of approximately \$110,500. During the past year, the State requested that the Commission file a deficit elimination plan, but this did not occur. The State will likely make the same request following this year's audit.

Changes in the Audit Process for Next Year

The fiscal year 2008 audit will represent a significant change as a result of recent auditing standards. The new standards are being called the "risk assessment standards", and will require auditors to spend significant time gaining an understanding and assessing both the design and operation of internal controls. In short, these new standards require auditors to obtain a deeper understanding of the aspects of financial-related internal controls:

- The general ledger accumulation process
- Control procedures

The standards dictate the following procedures related to these aspects of internal control:

- Obtain a deeper understanding of the design and operation
- Assess the effectiveness of internal control ("give it a grade")
- Document why the assessment is appropriate (corroborating evidence)
- Consider what could go wrong in the financial statement process

In addition, the fiscal year 2008 audit will result in a new communication formerly used primarily for audit committees. This communication will call for us to communicate to the governing body several detailed aspects of the audit process that you may find useful in your oversight of the Commission's financial management. We look forward to working through these audit process changes with you, and would be glad to discuss the details with you at greater length.

This communication is intended solely for the information and use of management and the Commission board and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank you and your staff again this year for the cooperation and assistance that they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Michael J. Swartz", with a stylized flourish at the end.

Michael J. Swartz

A handwritten signature in black ink, appearing to read "Brian J. Camiller", with a stylized flourish at the end.

Brian J. Camiller